WHONNOCK INDUSTRIES LIMITED

1973 report

The Annual
General Meeting of the
Company will be held on
March 22, 1974, at 10:00 a.m.
in the
Connaught Room, Hotel Georgia
801 West Georgia Street
Vancouver, B.C.

WHONNOCK INDUSTRIES LIMITED

HEAD OFFICE and REGISTERED OFFICE
P.O. Box 49114 / The Bentall Centre
Vancouver, B.C. V7X 1H7

Officers

R. A. C. McColl, *Chairman*
C. A. Johnson, *President*
H. L. Henri, *Assistant to President Vice-President, Production*
H. Kneteman, *Executive Vice-President and Secretary-Treasurer*
T. Evans Lougheed, *Vice-President*
J. E. Villiers, *Vice-President, Finance*

Directors

C. B. Delbridge, Vancouver, B.C.
Arthur Holding, Chase, B.C.
C. A. Johnson, Vancouver, B.C.
H. Kneteman, Vancouver, B.C.
T. Evans Lougheed, Penticton, B.C.
R. A. C. McColl, Vancouver, B.C.
G. A. McGavin, Vancouver, B.C.

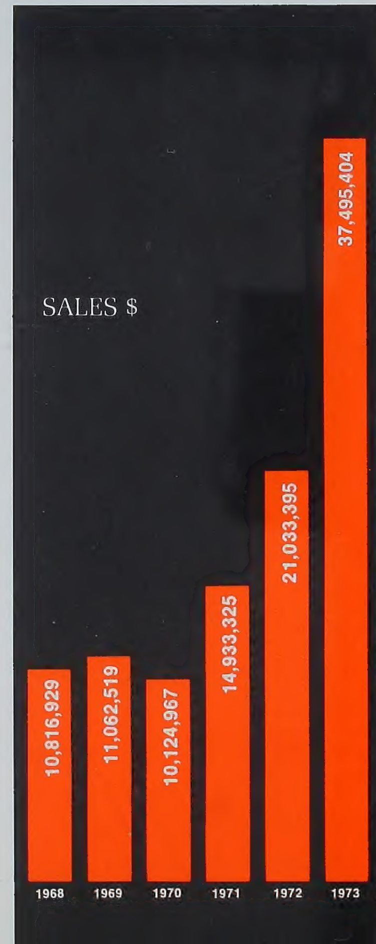
Auditors

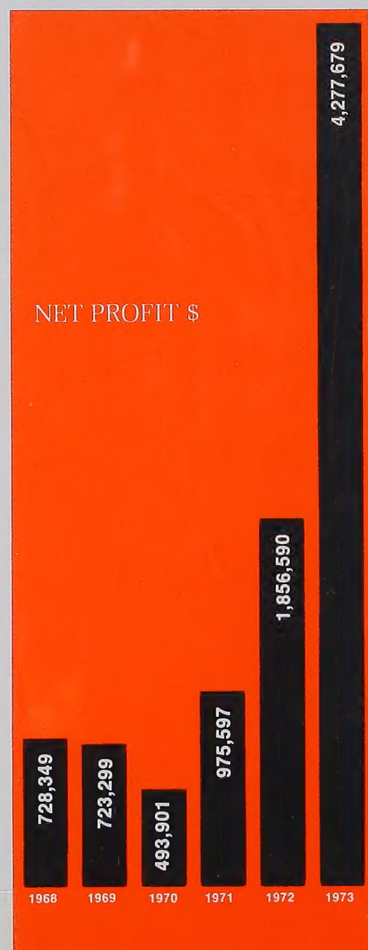
Touche Ross & Co., Vancouver, B.C.

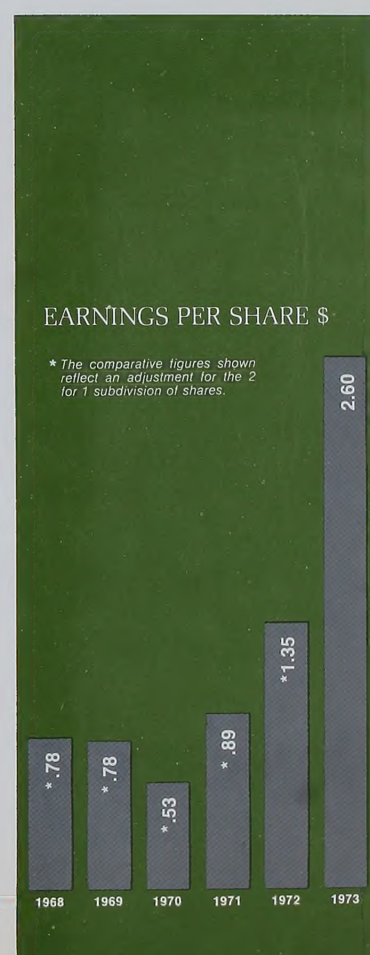
Transfer Agent

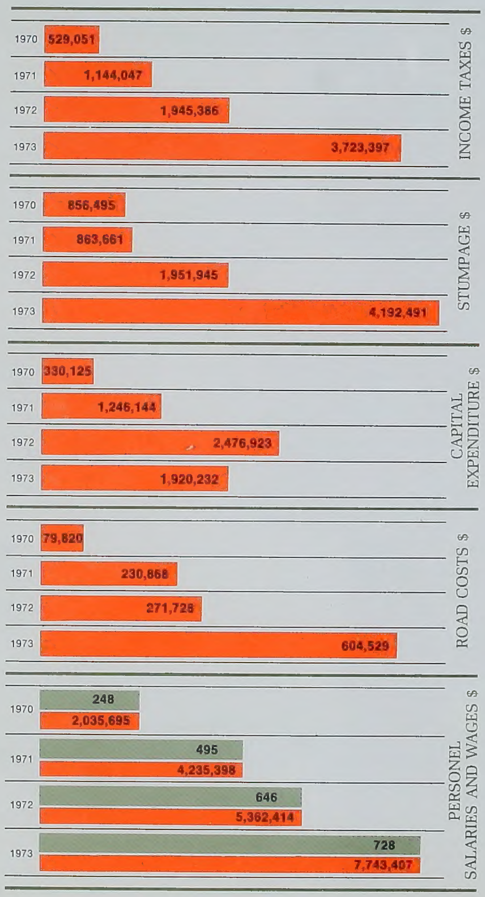
The Canada Trust Company, Vancouver, B.C.

FINANCIAL REVIEW









President's Report

The fiscal year 1973 saw the results of your company's efforts over the past several years to create modern highly automated operations for both the forest product and manufacturing divisions. The earnings of your company increased by 130% to $4,277,679 while sales and other operating revenue increased by 78% to $37,495,404. Net income per common share was $2.60 in 1973 as compared to $1.35 in 1972.

During 1973, the Company's operations generated an estimated $7.9 million in taxes and stumpage costs, payable to the various levels of government in Canada. Whonnock incurred income taxes of $3.7 million, stumpage of $4.2 million and, in addition, its employees paid approximately $1.5 million in Federal and Provincial taxes on their earnings.

Management is aggressively pursuing avenues of not only increasing production within existing facilities but further processing products to create a higher sales value which in turn will produce a greater margin of profit, and is continuing its planned program of external acquisitions of well managed, successful Canadian companies operating in markets, industries and regions of the country with above-average profit opportunity.

Capital expenditures and road costs in 1973 amounted to $2.5 million, all financed by cash flow out of your Company's operations during the year. Principal capital expenditures were the expansion of the Weldco plant, the installation of a new dry kiln at the Interior operations and gathering systems to carry out our total utilization policy for sawdust and shavings at both the Coastal and Interior Operations.

Although the market for lumber and shakes and shingles experienced a decline in the last few months, there are now good indications that this market is strengthening, particularly in relation to the U.S. rail market.

Management carried out a research of markets early in 1973 and aggressively adopted a sales program of booking forward contracts at excellent prices in anticipation of a decline in lumber prices, holding forward contracts on the export markets in the amount of approximately 60 million board feet as at November 30, 1973. These contracts extend into mid-1974.

The employees are to be congratulated for their dedicated effort which made 1973 such a successful year. We on the Board are most appreciative of their support.

Submitted on behalf of the Board of Directors.

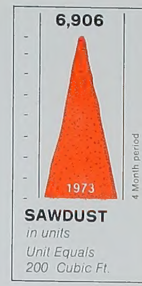
President

Coastal Operations

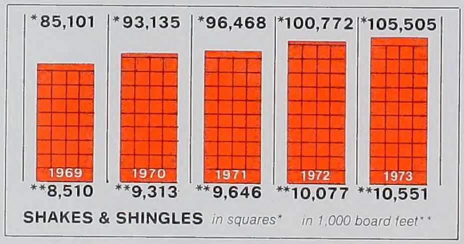
The production from the Coastal Operations at Whonnock and Stave Lake achieved the volumes projected a year ago. Production from the Company s smallwood mill and 40 ft. export mill amounted to 89,829,000 f.b.m. and from the Company's shake and shingle mill 105,505 squares as compared to 58,770,000 f.b.m. and 100,772 squares in 1972.

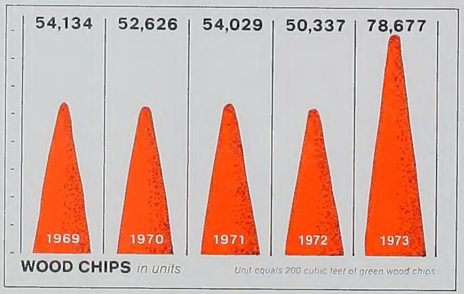
Management is pleased to confirm that the Coastal Operations experienced no loss of production from either weather or labour disputes.

The new sawdust and shavings gathering system constructed at the Whonnock mill in 1973 will enable the Company to more profitably market these by-products.

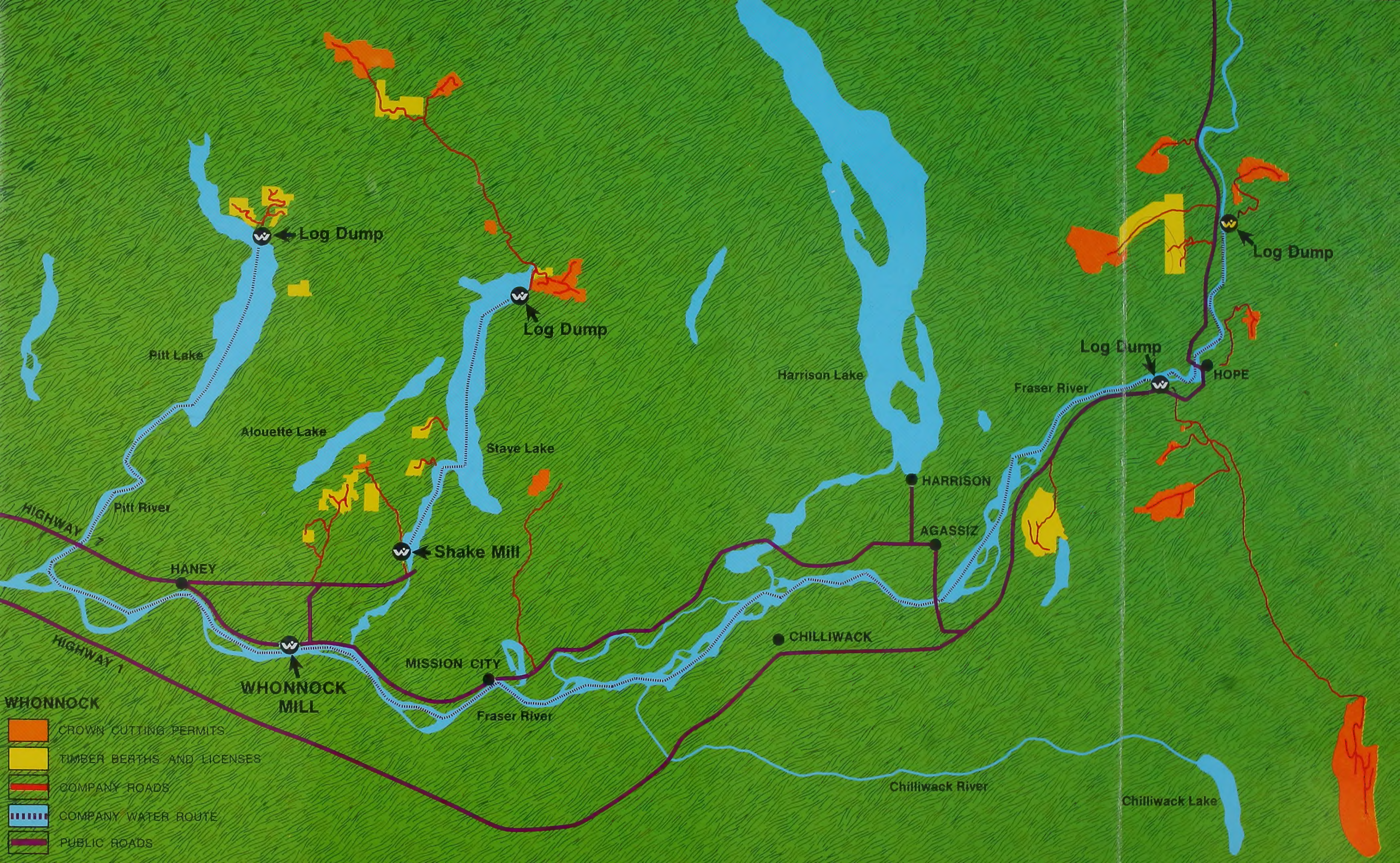


FIVE YEAR PRODUCTION FIGURES





Head office of Whonnock Lumber at the mill site, Whonnock, B.C.



Log Dump
Log Dump
Log Dump
Log Dump
Pitt Lake
Alouette Lake
Stave Lake
Harrison Lake
Fraser River
HOPE
HARRISON
AGASSIZ
Pitt River
HIGHWAY 7
HANEY
Shake Mill
CHILLIWACK
HIGHWAY 1
MISSION CITY
WHONNOCK MILL
Fraser River
Chilliwack River
Chilliwack Lake
WHONNOCK
CROWN CUTTING PERMITS
TIMBER BERTHS AND LICENSES
COMPANY ROADS
COMPANY WATER ROUTE
PUBLIC ROADS

Wood chips being loaded at Whonnock. Operation is continuous until barge capacity of 800 units is achieved.

Lumber loading onto barge for delivery to markets. Capacity is 1,000,000 f.b.m.

Automatic sawdust loading by new installation at Whonnock. Pipe in foreground supplies flow from mill. Barge holds 500 units.

Interior Operations

Production from the Interior Operations reached record levels during 1973 at 80,117,000 f.b.m. as compared to 67,056,000 f.b.m. in 1972.

The sawdust and shavings collected by the new gathering system, completed in 1973, will be sold to a pulp mill in Kamloops, B.C. giving an additional source of income which will reflect in the 1974 fiscal year.

The new dry kilns constructed in 1973 will enable the Company to have greater flexibility in meeting market requirements with a resultant increase in the profitability of the Interior Operations.

LOG SOURCE
Adams Lake

VOLUME THROUGH MILL - 1973
80,117,000 F.B.M.

Crown Cutting Permits - 70.3%
56,300,000 F.B.M.

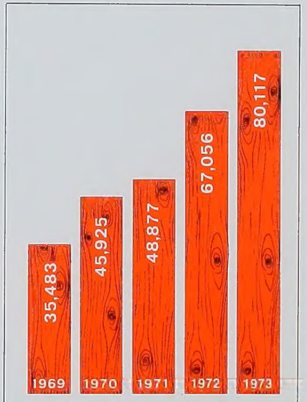
Timber Berths and Licenses - 18%
14,477,000 F.B.M.

Local Purchases - 5.5%
4,348,000 F.B.M.

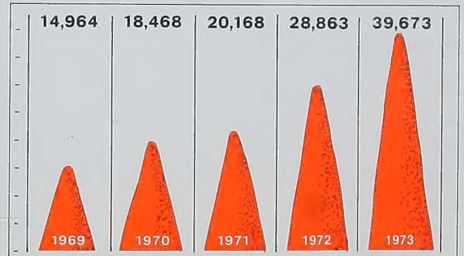
Farmer Wood - 1.4%
1,068,000 F.B.M.

Inventory - 4.8%
3,924,000 F.B.M.

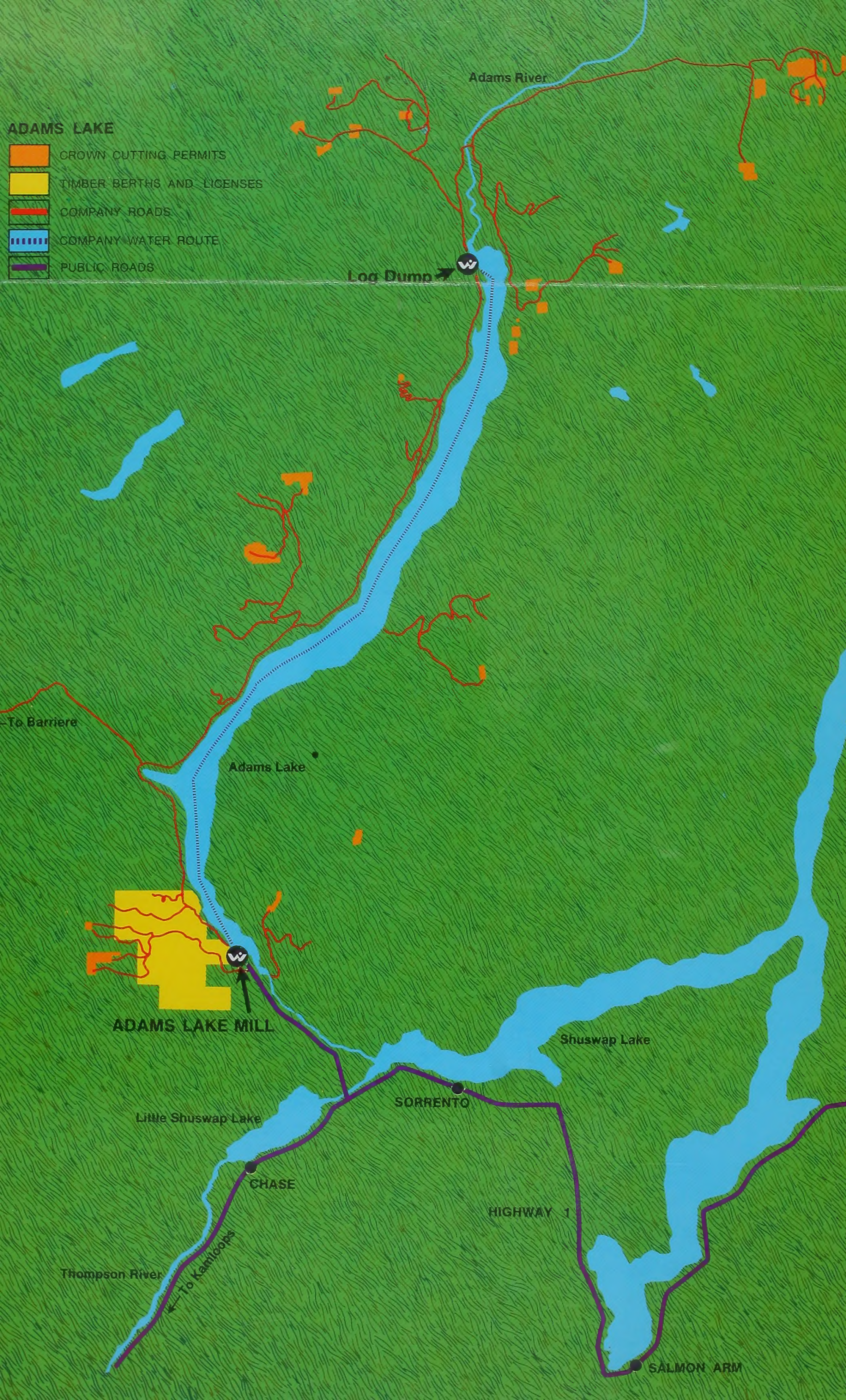
FIVE YEAR PRODUCTION FIGURES



LUMBER *in 1,000 board feet*



WOOD CHIPS *in units* Unit Equals 200 Cubic Ft. of Bone Dry Chips


ADAMS LAKE
CROWN CUTTING PERMITS
TIMBER BERTHS AND LICENSES
COMPANY ROADS
COMPANY WATER ROUTE
PUBLIC ROADS
Adams River
Log Dump
To Barriere
Adams Lake
ADAMS LAKE MILL
Shuswap Lake
Little Shuswap Lake
SORRENTO
CHASE
HIGHWAY 1
Thompson River
To Kamloops
SALMON ARM

Weldco

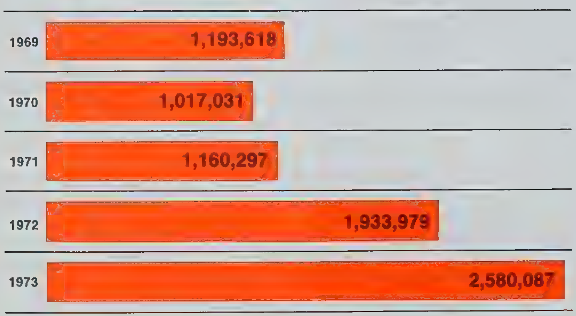
The 1973 year saw the completion of the 11,000 sq. ft. addition to its plant. Weldco, once again, has completed a very successful year with sales for 1973 increasing to $2,580,087 as compared to $1,933,070 in 1972.

Management is proceeding with its plans to establish a Manufacturing Division in Alberta.

The market for the Company's products continues to increase with the outlook for 1974 being most optimistic.

New 11,000 sq. ft addition to Weldco plant completed in mid 1973.

FIVE YEAR SALES $



Large floor area of new addition gives increased efficiency to production of Weldco products

WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEET

as at November 30, 1973

ASSETS

	1973	1972
Current		
Cash	$ 332,041	$ 293,132
Term bank deposits	1,685,000	500,000
Trade and other accounts receivable	2,411,327	1,730,827
Inventories	6,840,507	6,171,445
Current portion of agreement for sale	137,500	—
Prepaid expenses	42,207	58,428
	11,448,582	8,753,832
Fixed		
Property, plant and equipment — at cost	9,815,883	8,494,054
Less: Accumulated depreciation	3,975,318	3,655,240
	5,840,565	4,838,814
Timber and logging roads		
Timber — at cost	1,335,046	1,335,046
Less: Accumulated depletion	503,507	414,187
	831,539	920,859
Logging roads - at cost less amortization	1,261,249	773,280
	2,092,788	1,694,139
Other		
Investments — at cost	158,060	165,965
Agreement for sale — net of current portion	132,500	—
Timber sale deposits	165,037	123,974
Excess of cost of shares over net book value at acquisition less amortization — Note 1	3,646,499	3,766,258
	4,102,096	4,056,197
	$23,484,031	$19,342,982

On behalf of the Board:

C. A. JOHNSON, Director
R. A. C. McCOLL, Director

LIABILITIES

	1973	1972
Current		
Bank indebtedness — secured	$ 242,063	$ 1,675,534
Accounts payable and accrued liabilities	3,362,393	2,654,496
Income and logging taxes payable	1,799,180	822,920
Current portion of long-term debt — Note 2	287,700	287,700
Contribution payable to employees' deferred profit sharing plan	42,305	282,061
5% Cumulative redeemable first preference share dividend payable	—	66,164
	5,733,641	5,788,875
Long-term debt, less current portion above — Note 2	2,302,225	2,589,217
Deferred income taxes	1,297,530	717,764
	3,599,755	3,306,981

SHAREHOLDERS' EQUITY

	1973	1972
Share capital — Note 3		
Authorized		
3,071,996 Class A common shares of no par value		
928,004 Class B convertible common shares of no par value		
Issued and fully paid		
1,500,153 Class A common shares (1972 - 988,864)		
146,411 Class B convertible common shares (1972 - 648,420)		
1,646,564	5,416,133	5,374,373
Retained earnings	8,734,502	4,872,753
	14,150,635	10,247,126
	$23,484,031	$19,342,982

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended November 30, 1973

	1973	1972
Balance at beginning of year	$ 4,872,753	$ 3,468,092
Add: Net income for the year	4,277,679	1,856,590
	9,150,432	5,324,682
Less: Class A common share dividends	415,930	235,765
5% cumulative redeemable first preference share dividends	—	216,164
	415,930	451,929
Balance at end of year	$ 8,734,502	$ 4,872,753

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended November 30, 1973

	1973	1972
Sales and other operating revenue	$37,495,404	$21,033,395
Production expense	26,404,923	14,624,759
Selling and administrative expense	1,781,058	1,598,974
Remuneration of directors and senior officers	413,310	208,982
Depreciation, depletion and amortization	780,604	520,645
Amortization of excess purchase price of subsidiary companies — Note 1	97,629	96,990
	29,477,524	17,050,350
Operating income	8,017,880	3,983,045
Dividends and interest from investments	109,782	45,667
Gain on disposal of fixed assets	80,943	6,872
	8,208,605	4,035,584
Interest on long-term debt	207,529	233,608
Income before income and logging taxes	8,001,076	3,801,976
Income and logging taxes:		
Current	3,143,650	1,501,792
Deferred	579,747	443,594
	3,723,397	1,945,386
Net income for the year	$ 4,277,679	$ 1,856,590

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended November 30, 1973

	1973	1972
Source of funds		
Net income for the year	$ 4,277,679	$ 1,856,590
Add: Charges against income not requiring an outlay of funds		
Depreciation, depletion and amortization	780,604	520,645
Amortization of excess purchase price of subsidiary companies — Note 1	97,629	96,990
Deferred taxes	579,747	443,594
Investment written-off	—	1,500
Less: Gain on disposal of fixed assets	(80,943)	(6,978)
	5,654,716	2,912,341
Proceeds from:		
Disposal of fixed assets	383,656	32,677
Issue of common shares — Note 3	41,760	4,734,202
Disposal of investments	7,905	10,100
	6,088,037	7,689,320
Application of funds		
Purchase of fixed assets and timber sale deposits	1,920,232	2,476,923
Construction of logging roads	604,529	271,728
Long-term debt currently maturing or repaid	286,992	585,431
Dividends on Class A common shares	415,930	235,765
Dividends on 5% cumulative redeemable first preference shares	—	216,164
Redemption of 5% cumulative redeemable first preference shares	—	3,000,000
Reallocation of deferred taxes to current taxes payable	—	41,155
Adjustment of excess cost of shares over net book value resulting from pre-acquisition logging tax assessment of subsidiary	(22,130)	25,400
Agreement for sale — less current portion	132,500	—
	3,338,053	6,852,566
Increase in working capital	2,749,984	836,754
Working capital at beginning of year	2,964,957	2,128,203
Working capital at end of year	$ 5,714,941	$ 2,964,957

WHONNOCK INDUSTRIES LIMITED

WHONNOCK INDUSTRIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at November 30, 1973

NOTE 1—SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of Whonnock Industries Limited as at November 30, 1973 consolidate the accounts of all its subsidiaries, all of which are wholly-owned, as follows:

Whonnock Lumber Company Limited,
Weldco Limited,
Wolco Marine Ltd.,
Holding Lumber Company Limited,
Holding Forest Products Ltd.,
Adams Lake Sales Co. Ltd.

The excess cost of shares in subsidiaries over their net book values at the dates of acquisition have been reported as follows:

(i) $278,769 was added to the cost of property, plant and equipment as it was deemed to be attributable thereto. Amortization of the excess purchase price attributable to plant and equipment is provided in the depreciation policy.

(ii) $3,905,778 was shown as excess purchase price and is being amortized on a straight-line basis over forty years, and accordingly a charge of $97,629 (1972 - $96,990) has been provided in the operating results.

Inventories

Inventories have been valued at invoice cost or average production cost as applicable, and are lower than net realizable value.

Depreciation, Amortization and Depletion

Depreciation and amortization of plant, equipment and roads is provided on the straight-line method based on the estimated remaining useful lives. Depletion is computed on the basis of timber cut.

Deferred Income Tax Accounting

The company follows the policy of charging current earnings with the income taxes deferred by claiming capital cost allowance for tax purposes in excess of depreciation recorded in the accounts.

Reclassification

Reclassifications of the 1972 figures have been made to conform to the presentation adopted in 1973.

NOTE 2—LONG-TERM DEBT

	1973	1972
Term bank loan 1½% above prime bank rates —repayable in annual installments of $200,000	$ 300,000	$ 500,000
Timber purchase agreements at prime bank rates—current portion $4,700 with balance repayable in annual installments of $6,967 including interest	40,925	44,917
5% promissory note issued on acquisition of Weldco Limited — repayable in annual installments of $83,000	249,000	332,000
8% Series A bonds — secured by a first floating charge on the assets of Whonnock Lumber Company Limited — maturing in 1986	2,000,000	2,000,000
	2,589,925	2,876,917
Less: Current portion	287,700	287,700
	$ 2,302,225	$ 2,589,217

Attached to the Series A bonds are Series A warrants of Whonnock Industries Limited which under certain circumstances entitle the bond holders to call for the redemption in whole or in part of their holdings provided that the proceeds from such redemption will be used by the bond holder to purchase Whonnock Industries Limited Class A common shares.

NOTE 3—SHARE CAPITAL

At the Annual General Meeting of the company a special resolution was passed to effect certain changes in the share capital as follows:

a) The 3,000,000 authorized 5% cumulative redeemable first preference shares were cancelled and, consequently are no longer available for reissue. These shares were redeemed at par in 1972.

b) The common share capital of the company was subdivided on a 2 for 1 basis. The 1972 comparative figures shown on the balance sheet have been adjusted to reflect this change.

c) The maximum rate of the preferential non-cumulative dividend attached to the Class A common shares was changed from 75c per share per annum (before the subdivision) to 40c per share per annum (after the subdivision). Any further dividends shall be declared in equal amounts on all common shares.

The Class B common shares (carrying ten votes per share) are convertible into Class A common shares (carrying one vote per share) at any time at the option of the holder, on the basis of one Class A common share for one Class B common share. During the year 508,009 shares were so converted. 146,411 Class A common shares are reserved for the conversion of Class B common shares.

During the year 3,280 Class A common shares and 6,000 Class B common shares were issued at $4.50 per share pursuant to employee stock options.

As at November 30, 1973 the company had outstanding 100,000 Series A warrants to subscribe for 200,000 Class A common shares as well as the following share options:

a) 9,840 Class A and 18,000 Class B common shares exercisable in equal amounts from 1974 to 1976 at $4.50 per share.

b) 4,600 Class A and 40,000 Class B common shares exercisable in equal amounts over the calendar years from 1973 to 1977 at $7.50 per share.

The above potential additions to issued Class A and Class B common shares have been incorporated in the calculation of fully diluted earnings per share as described in Note 4.

Subsequent to November 30, 1973 the share options as described in (b) above were cancelled and replaced by share options on 54,000 Class B common shares exercisable in equal amounts over the calendar years from 1974 to 1978 at $6.64 per share.

NOTE 4—NET INCOME PER COMMON SHARE

a) Net income per common share—$2.60 (1972—$1.35)

Net income per common share reflects the weighted annual average of the Class A and B shares issued during the year and the issued and outstanding Class A and B shares as at November 30, 1972 divided into the consolidated net income.

b) Fully diluted net income per common share—$2.29 (1972—$1.18)

Fully diluted net income per common share shows the effect of the maximum possible dilution on net income which would result if all warrants attached to the 8% Series A bonds (200,000) and if all outstanding share options (72,440) had been exercised at December 1, 1972.

The comparative figures shown reflect an adjustment for the 2 for 1 subdivision of shares as described in Note 3.

Auditors' Report

To Shareholders,
Whonnock Industries Limited.

We have examined the consolidated balance sheet of Whonnock Industries Limited as at November 30, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants.

Vancouver, B.C.
January 14, 1974

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To the Shareholders:

I am pleased to present this report on the operations of your Company for the nine month period ended August 31, 1973, together with comparative figures for the nine month period ended August 31, 1972.

The Company's Consolidated Sales amounted to $26,829,143 as compared to $14,080,769 for the same period in 1972 and the Consolidated Net Income was $3,039,331 or $1.85 per share as compared to $1,450,513 or $1.05 per share for the 1972 corresponding period.

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE
for the nine month period ended August 31, 1973

	Aug. 31/73	**Aug. 31/72**
Sales and other operating revenue	$26,829,143	$14,080,769
Profit on disposal of fixed assets	—	8,759
Net income before income and logging taxes	5,699,299	2,883,513
Provision for income and logging taxes	2,659,968	1,433,000
Net income for the period	$ 3,039,331	$ 1,450,513
Earnings per Common Share (Note)	$ 1.85	$ 1.05
Earnings per Common Share Fully Diluted (Note)	$ 1.62	$ 0.93

NOTE: Fully diluted earnings per Common Share shows the effect of the maximum possible dilution on the net income which would result if all warrants attached to the 8% Series "A" Bonds (200,000) and if all outstanding share options (72,440) had been exercised at December 1, 1972.

The earnings per Common Share for the 9 months ended August 31, 1972 have been restated to reflect the 2 for 1 stock split.

I would like to report to the Shareholders that the March 23, 1973 agreement covering a proposal to buy a controlling interest in Integrated Wood Products Ltd. from Kenneth A. W. Long and Fadear Investments Ltd. has been terminated.

Your Company is proceeding with its plans to establish a manufacturing plant in the Province of Alberta. This plant will enable the Company to meet the increased demands for its product in both the Canadian and Export markets.

The market for lumber remains relatively stable and your Company has taken export orders in the amount of 50 million feet at excellent prices into the first and second quarters of 1974.

On behalf of the Board of Directors

President

September 24, 1973

WHONNOCK INDUSTRIES LIMITED / 655 — TWO BENTALL CENTRE / VANCOUVER 1, B.C. / (604) 681-3357

January 28, 1974

To the Shareholders:

I am pleased to present a preliminary report of the consolidated results of your Company for the year ended November 30, 1973.

The Company's Consolidated Sales amounted to $37,495,404. and the Consolidated Net Income was $4,277,679. or $2.60 per share. The Consolidated Statement of Income is as follows:

Consolidated Statement of Income
for the year ended November 30, 1973

		1972
Sales and other operating revenue	$37,495,404	$21,033,395
Income before income and logging taxes	8,001,076	3,801,976
Income and logging taxes:		
Current	3,143,650	1,501,792
Deferred	579,747	443,594
	3,723,397	1,945,386
Net income for the year	$ 4,277,679	$ 1,856,590

Note 1 The Consolidated Statement of Income for the year ended November 30, 1973 consolidates the accounts of all its subsidiaries, all of which are wholly owned.

Note 2 (a) Net income per common shares $2.60 (1972 $1.35).

Net income per common share reflects the weighted annual average of the Class A and B shares issued during the year and the issued and outstanding Class A and B shares as at November 30, 1973 divided into the Consolidated Net Income.

(b) Fully diluted net income per common shares - $2.29 (1972 - $1.18).

Fully diluted net income per common share shows the effect of the maximum possible dilution on net income which would result if all warrants attached to the 8% Series A Bonds (200,000) and if all outstanding share options (72,440) had been exercised at December 1, 1972.

The comparative figures shown reflect an adjustment for the 2 for 1 subdivision of shares.

The market for lumber, shakes and shingles has declined significantly in recent months. This rate of decline has moderated but uncertainty still prevails particularly in relation to the U.S. rail market. Management of your Company carried out a research of markets early in 1973 and aggressively adopted a sales program of booking forward contracts at excellent prices in anticipation of a decline in lumber prices. Your company held forward contracts on the export markets in the amount of approximately 60 million board feet as at November 30, 1973. These contracts extend into mid-1974.

I would like to take this opportunity to thank both the management and work force of your Company for the spirit and application in relation to their jobs. I would also like to point out to the shareholders that their Company did not experience any loss of production during 1973.

A complete report on the year's operations will be given when the Annual Report is issued in approximately one month.

On Behalf of the Board of Directors,

C. A. JOHNSON,
President.

PLEASE NOTE:
Our new address will be—
P.O. Box 49114
The Bentall Centre,
Vancouver, B.C. V7X 1H7

WHONNOCK INDUSTRIES LIMITED / 655 — TWO BENTALL CENTRE/VANCOUVER 1, B.C./(604) 681-3357